

**TESTIMONY OF GOVERNOR ERNIE FLETCHER
GOVERNOR OF THE COMMONWEALTH OF KENTUCKY
AND
ARC'S STATES' CO-CHAIRMAN
SUBMITTED TO THE
HOUSE COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC
BUILDINGS AND EMERGENCY MANAGEMENT
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Mr. Chairman and members of the Subcommittee, I am Ernie Fletcher, Governor of the Commonwealth of Kentucky, and I am proud to serve as the Appalachian Regional Commission's States' Co-Chairman for 2006 and to represent the 13 Governors from the Appalachian Region who are members of the Commission. I am submitting this testimony on our collective behalf.

Origin and Mandate

ARC is a unique federal/state partnership that evolved out of discussions among the governors of Maryland, Kentucky and West Virginia. They were seeking ways to remedy the economic blight that had devastated the coal producing states of the Appalachian Region. They decided that a federal-state partnership was needed, and they began to develop a plan of action. Other governors in the region joined in the planning and the final result was Congress creating the Appalachian Regional Commission in 1965.

The region, defined by Congress, includes 23 million people in 410 counties spread across parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and all of West Virginia.

The role of the Commission is to help the people of Appalachia reach socio-economic parity with the rest of the nation. In addition, this new era of global competition requires a special emphasis on assisting the people of Appalachia to become globally competitive.

Organizational Structure and Governance

With its staff headquarters located in Washington, DC, a Federal Co-Chair and the governors of the 13 Appalachian states govern the Commission. This arrangement gives the governors a direct voice in the allocation of federal funds for development projects in their respective states. Decisions require a majority vote of the governors plus the vote of the federal co-chair, a presidential appointee. Each governor appoints an alternate to represent the state at ARC meetings and to assist in the creation of a strategic development plan.

The Commission determines the formula by which the annual appropriation from Congress is distributed among the states, and it approves each state's development plan. The ARC staff, headed by an executive director, serves the Commission in implementing its programs and policies. It reviews projects submitted by the states, distributes funding to the states, and provides a broad range of technical expertise to communities in their developmental efforts.

The ARC has been a strategic partner and advocate for sustainable community and economic development in the Appalachian Region since its formation and we are grateful for the organization's guidance and support. We want to commend the President and Congress for continuing to commit to the work of the Commission and want to thank you, Mr. Chairman, for holding this hearing today to consider a five-year reauthorization of ARC's non-highway program.

Investment Results

ARC investments and support, combined with strong state, local and private sector commitment and investments, has been instrumental in reducing the number of distressed Appalachian counties from 223 to 77 in FY 2006. I believe this demonstrates significant results. (Distressed counties have an unemployment rate that is at least 1.5 times the U.S. average; a per capital market income that is two-thirds or less of the U.S. average, and a poverty rate that is at least 2.5 times the U.S. average; or they have 2 times the U.S. poverty rate and qualify on the unemployment or income indicator.)

In the Commonwealth of Kentucky, there are 51 counties in the Appalachian region. In FY06 we have 32 distressed counties, 12 at risk and 7 transitional. In 2005 ARC invested \$8.35 million in non-highway funds in Appalachian Kentucky which leveraged \$33.1 million in other public funds. We anticipate that these investments will lead to the creation or retention of 1,135 jobs. Between 2001 and 2005, ARC invested \$47.01 million in non-highway funds in my state which is expected to create or retain 3,494 jobs and serve nearly 65,350 families with infrastructure improvements.

In your state, Mr. Chairman, between 2001 and 2005, ARC invested \$29.44 million in non-highway funds that will create or retain approximately 76,466 jobs, and serve nearly 1,800 families with infrastructure improvements. In 2005, \$5.4 million in ARC non-highway funds were invested in Appalachian Pennsylvania, leveraging \$21.35 million in other public funds and \$126.64 million in private investments.

ARC, with its regional focus, has helped improve broadband access and e-commerce throughout the region. Currently, ARC is partnering with our 13 states and Microsoft to enhance the entire Appalachian region's broadband and IT access through a \$2 million software donation.

One of the top priorities of my administration is connecting all communities in Kentucky to the information super highway by 2007. Currently, Kentucky is using ARC funds to compile an inventory of broadband access across the 51 Kentucky ARC counties and to work with the private sector to substantially increase broadband coverage. ConnectKY's maps provide a first-of-its-kind view of where broadband coverage exists and its

eCommunity Leadership program is helping counties assess their needs, craft strategic plans, and aggregate local demand to entice the private sector to expand broadband coverage. Statewide, over the past two years, the percent of county households with the ability to subscribe to broadband has grown from 60 percent to 77 percent. ARC support has been critical to this effort.

While pursuing the latest technology, Kentucky continues to invest in regional water resource delivery with the goal of making clean water available to all communities by 2020. We are using ARC resources to do this. We have a continuing need to update existing water treatment facilities, and as water services begin to reach everyone, we will focus our efforts more on initiatives to tackle and eliminate straight pipes with the continuing support of ARC.

ARC Focus

ARC's mission is broader than that of other economic development programs, focusing not on cyclical economic downturns but on long-term, systemic regional and rural distress. ARC is often the lever that has brought other federal funding sources to projects in localities suffering severe fiscal distress. By offsetting some of the cost of "local share" participation, ARC has permitted these communities to participate in EDA, CDBG and other economic development programs that might otherwise be beyond their reach. ARC targets distressed counties and, over the past five years, has provided them annually with more than 65 percent of congressionally allocated program funds. ARC can fund up to 80 percent of the total project cost in a distressed county.

Our 13 states all actively support ARC, and as I believe you know, the Appalachian States pay annually for 50 percent of the Commission's administrative expenses (including personnel) through their assessments. We also cover the total costs of our States' Washington Office at the Commission.

Recent Examples of Successful Regional Cooperation

I applaud ARC's strategic plan developed two years ago by stakeholders across the region. The collective vision of the plan is to achieve socio-economic parity with the rest of the nation. The four goals identified to move the region toward this parity are to:

1. Increase job opportunities and per capita income.
2. Strengthen the capacity of the people.
3. Develop and improve Appalachia's infrastructure.
4. Build the Appalachian Development Highway System.

Our focus on these goals and our regional cooperation and targeted investments to achieve them, will move the region toward this desired parity.

Accomplishments of ARC

The Commission has been about solving problems by building partnerships, leveraging our grant dollars with federal, state, local funds and the private sector, and by being

advocates for the region. For every ARC dollar invested in infrastructure grants, Appalachia has gained about 33 dollars in long-term benefits.

I think it is important to note here that ARC's success in leveraging additional federal, state and local government funds, as well as private sector investments, is based on its bottom up approach to identifying local needs and developing plans to address them. ARC works in cooperation with local communities and the 72 Local Development Districts across the region that provide guidance, technical assistance, strategic planning expertise and oversight to ensure that ARC projects address the identified need and accomplish the anticipated results.

ARC has made considerable progress since its creation through advocacy, leadership, research and knowledge building, as well as targeted grant-making, leveraging substantial public and private resources, and partnering with other federal agencies. These efforts have:

Reduced the region's isolation and facilitated economic development by constructing nearly 2,500 miles of the Appalachian Development Highway System. This is approximately 80 percent of the 3,090 miles authorized by Congress for the ADHS. The ADHS replaces a network of worn, narrow, winding two-lane roads.

Improved the region's economic progress by improving the employability of its workforce through improvements in education, health care, skills training, school-to-work transition, as well as improving living conditions and environmental quality through investments in new and improved water and sewer infrastructure.

Promoted Appalachian entrepreneurship and business development, by providing technical assistance, access to credit, support for the region's marketing of its unique cultural heritage, natural beauty and unique Appalachian products.

These strategic investments have:

- Decreased the number of distressed counties 65 percent, from 223 to 77 in 2006;
- Created over 1.6 million new jobs, in addition to the 766,000 jobs generated by the Appalachian development highway;
- Reduced the poverty rate by one-half, from 31 percent to 13 percent;
- Narrowed the per capital income gap between Appalachia and the rest of the U.S. from 22 percent below the national average to 18 percent;
- Reduced the infant mortality rate by two-thirds;
- Strengthened rural health care infrastructure through the addition of over 400 rural primary care health facilities;
- Increased the percentage of adults with a high school diploma by over 70 percent; and
- Over the last five years alone, Commission-funded infrastructure projects have resulted in the creation or retention of 136,000 jobs, and over 183,000 households have the benefits of clean water and sanitation facilities.

Challenges Ahead

The ARC has never been about throwing money at a problem. We have never had much money to throw. Since the early 1990's the Commission's non-highway funding has remained virtually level at approximately \$65 million annually.

The Appalachian region continues to face a unique and complex set of social and economic challenges. The region has been hit disproportionately hard by the loss of manufacturing jobs. One of every five jobs lost in manufacturing has been in Appalachia. Income in Appalachia continues to lag the nation. Our Appalachian counties still have a strong need for modern infrastructure, including broadband access; improved health care access; and enhanced educational opportunities. These facts underscore the importance of ARC's mission. And they underscore the importance each one of our 13 Governors place on our work with ARC and our individual efforts to advance our Appalachian regions.

From our perspective, ARC's mission has not been completed. Over 77 counties and many smaller areas still are classified as severely distressed. There are 65 transitional counties teetering on the edge of distress and could fall back to the distressed designation without continued attention. Weakness in civic capacity has limited leadership development, broad citizen involvement, local strategic planning, and collaborations that are necessary for a sense of empowerment and civic engagement. Increased global competition and technological change have resulted in job losses and restructuring in many Appalachian industries.

Demographic shifts between 1990 and 2000 have led to a decline in the region's share of the "prime-age" work force. This has led to the erosion of the high-earnings potential of the workforce and reversed the region's gain in per capita income. Due to these and other factors, the region is still challenged by concentration of high poverty, unemployment, low income, and out migration. The strategic goals in ARC's five-year strategic plan have been designed to address these deficits.

Concluding Section

Mr. Chairman, you represent a district which is partially within the Appalachian region, so I know you see first hand the benefits of the Pennsylvania/ARC partnership and recognize that there is still work to be done so reauthorization of ARC is essential.

On behalf of the Appalachian Governors, I want to express our commitment to working with the Appalachian Regional Commission to achieve our shared, regional goals of socio-economic parity with the nation and the creation of a workforce that can compete in the global economy. We urge the Congress to reauthorize ARC for five years so we can work toward accomplishing these goals for the 23 million residents of Appalachia.